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UNCLAS QUITO 001673

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SUBJECT: LICENSING CONDITIONS IN ECUADOR'S TELECOMS SECTOR

REF: SECSTATE 114687

1. Per reftel, Commercial Specialist and Econ Officer met with acting President of the National Telecommunications Council Antonio Arroyo on July 11 to discuss licensing conditions in the Ecuadorian telecommunications sector. The following information also reflects discussions with other telecommunications officials.

2. Arroyo explained that the GOE only imposes licensing fees to local fixed telephony. Although no regulations currently exist for national and international telephony, Arroyo claims that such regulations will be issued later in the year. Two levels of fees exist, both of which are charged quarterly and only once the concessionaire starts operations. The first - 0.5% of gross sales - is charged to cover concession rights and administrative costs to include concession contract administration, registry, and regulatory activities. The second - 1% of gross sales - is used to fund the development of rural telecommunications. Fees are charged based on gross sales and do not reflect the geographical scope of the license, the type of service, or whether the licensee offers a facilities-based or non-facilities-based service.

3. The GOE imposes a performance guarantee for each contract concession, irrespective of geographical scope. Each new contract, even for an existing licensee, requires a new guarantee. The performance guarantee is in force during the duration of the concession (15 years) and an additional 90 days thereafter. The present amount of the performance guarantee is \$100,000 for local facilities-based service providers and \$1,000,000 for non-facilities-based service providers. Arroyo indicated that this admittedly arbitrary figure might change, with proposed regulations stipulating an amount equivalent to 100% of the proposed investment. The guarantee issuer, depending on the type of guarantee, charges the following costs: 2% annually for a stand-by letter of credit, 4% annually for a bank guarantee, and 4% annually for an insurance policy. Note that no capitalization or bonding requirements currently exist for national and international telephony.

4. According to Arroyo, specific build-out requirements do not exist. However, as part of the licensing review process, the investor is required to present a minimum five-year investment plan.

HERBERT